TD/B/1249
TD/B/C.3/237

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE AND DEVELOPMENT BOARD

Thirty-seventh session, first part

OFFICIAL RECORDS
Supplement No. 2

Report of the Committee on Invisibles and Financing related to Trade

**on its thirteenth session
first part (5-9 February 1990)**

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UNITED NATIONS
New York, 1990

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NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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For the recommendations, resolutions, declarations and decisions adopted by the United Nations Conference on Trade and Development, see:

First session: *Proceedings of the United Nations Conference on Trade and Development*, vol. I, *Final Act and Report* (United Nations publication, Sales No. 64.II.B.11), pp. 18-65;

Second session: *Proceedings of the United Nations Conference on Trade and Development, Second Session*, vol. I and Corr.1 and 3 and Add.1 and 2, *Report and Annexes* (United Nations publication, Sales No. E.68.II.D.14), annex I, A, pp. 28-58;

Third session: *Proceedings of the United Nations Conference on Trade and Development, Third Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.73.II.D.4), annex I, A, pp. 53-114;

Fourth session: *Proceedings of the United Nations Conference on Trade and Development, Fourth Session*, vol. I and Corr.1, *Report and Annexes* (United Nations publication, Sales No. E.76.II.D.10), part one, sect. A, pp. 6-43;

Fifth session: *Proceedings of the United Nations Conference on Trade and Development, Fifth Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.79.II.D.14), part one, sect. A, pp. 6-50;

Sixth session: *Proceedings of the United Nations Conference on Trade and Development, Sixth Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.83.II.D.6), part one, sect. A, pp. 6-40;

Seventh session: *Proceedings of the United Nations Conference on Trade and Development, Seventh Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.88.II.D.1), part one, sect. A, pp. 6-27.

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GE.90-50594/1745B

INTRODUCTION

1. The first part of the thirteenth session of the Committee on Invisibles and Financing related to Trade was held at the Palais des Nations, Geneva, from 5 to 9 February 1990 and was devoted to questions of insurance and reinsurance.

2. During the first part of its session, the Committee held six plenary meetings (215th-220th).

Opening statements

3. The Chairman said that the problem of assessing reinsurance security was even more urgent today, because the structure of insurance and reinsurance markets and the complexity of risks had increased reliance upon international reinsurers, the growing number of reinsurers and brokers had changed business relationships in markets, and the lack of sufficient information had raised difficulties in appraising reinsurance security. The international practice of insurance business was changing, and the Committee provided a particularly appropriate framework within which to discuss the long-term problems of insurance.

4. The Secretary-General of UNCTAD, emphasizing the objectives and the unique role of the Committee within the United Nations family in matters concerning insurance, said that a dynamic insurance sector could make an important contribution to the development process. In that context, attention must be drawn to the rapid transformation taking place in insurance markets following changes in policy orientation adopted by many developing countries, particularly as regards privatization and liberalization.

5. The secretariat's study "Insurance in developing countries: review of developments in 1986-1988" (TD/B/C.3/229) could help professionals and authorities to familiarize themselves with the experience of other countries. Insurance could not be isolated from general economic trends, and the overall economic situation prevailing in many developing countries, particularly the shortage of foreign exchange, had posed problems for the functioning of the insurance industry. While the structural adjustment policies adopted in many developing countries had provided new impetus to the insurance industry, they could also pose dangers regarding the viability and soundness of insurance markets. The new dynamism required from the insurance industry could be promoted by extending insurance to new strata of the population, particularly in the agricultural sector.

6. With regard to the secretariat studies summarized in the secretariat's report on "Reinsurance security for developing countries" (TD/B/C.3/228), a key element to reinsurance security was the choice of reliable brokers and reinsurers. However, to assess their reliability, insurers needed relevant information. For this purpose, the authorities of developing countries should invite foreign-based reinsurers and brokers wishing to operate in their countries to provide such information about themselves. Serious reinsurers and brokers already prepared such information for their clients. He stressed that this proposal would not alter the responsibility and prerogative of ceding companies to choose the reinsurers and brokers that best met their needs. Finally, the proposal would enhance the functioning of insurance markets, providing potential purchasers with the necessary information to choose the product that best met their needs.

Chapter I

INVISIBLES: INSURANCE
(Agenda item 5)

7. For its consideration of this item, the Committee had before it the following documentation:

"Insurance in developing countries: review of developments in 1986-1988: study by the UNCTAD secretariat" (TD/B/C.3/229 and Summary);

"Statistical survey on insurance and reinsurance operations in developing countries: 1984-1986" (TD/B/C.3/231);

"Reinsurance security for developing countries: report by the UNCTAD secretariat" (TD/B/C.3/228).

8. The spokesman for Group B (United Kingdom), referring to the study on "Insurance in developing countries: review of developments in 1986-1988" (TD/B/C.3/229), congratulated the secretariat and noted with pleasure the trend noted in the report towards market restructuring and promotion of competition. It was unfortunate, however, that the statistical survey (TD/B/C.3/231) had not been circulated in advance of the Committee's session.

9. With regard to chapter V of the "Review of developments", he questioned the implication that reinsurers from the developed world had exploited their clients in developing countries. Reinsurance markets were competitive, and no "excessive" profit would long resist the initiatives of other reinsurers. He also questioned the suggestion in paragraph 176 and chapter II.E that reinsurance reciprocity had resulted in losses to insurers in developing countries. Nevertheless, countries in his Group had considerable reservations about the practicality of reciprocity in developing countries, and they recommended that it be used sparingly.

10. The representative of China, referring to the review of developments in 1986-1988, said that, during the three years under review, a great deal of work had been done in his country with respect to developing the national insurance industry, training those involved in the insurance sector and co-operating with other developing countries. The management of the insurance industry in the country had been improved, as had risk management techniques, and regional and international co-operation with other developing countries had been extended.

11. China was a developing socialist country whose policy of opening up to the outside world had led to the development of its national economy. Insurance in China had expanded considerably in recent years, with premium income rising to ¥RMB 13 billion in 1989, an increase of 160 per cent in comparison with 1986. The expertise of staff and the quality of service to the public had been improved, and although the country had experienced many natural disasters during the period, losses had been reimbursed rapidly.

12. As part of the country's policy of opening up to the outside world, a number of joint ventures had been established, and 15 foreign insurance

corporations and a number of broking firms had established their representation in China. However, those corporations were not allowed to conduct business directly. His country also favoured the exchange of information and co-operation between developing countries. In the past, China had participated in meetings on insurance in the Asian and African regions, and regional co-operation was developing smoothly, thereby contributing to the economic development of developing countries.

13. Reinsurance security was a very important subject, especially for the developing countries. The blind competition that had sometimes prevailed in reinsurance markets must be curbed; some corporations on the international scene were only looking for "cash flow underwriting", which was damaging to the insurance industry and could cause bankruptcies. Insurance corporations and their customers in developing countries could not enjoy a sufficient degree of security, and that situation must be changed. Some developing countries, in an attempt to balance their internal insurance operations, had accepted inward reinsurance business. However, because of the poor quality of the business offered, due to the blind competition by some companies in some developed countries, developing country companies had suffered more losses. That was unreasonable.

14. Developing countries must therefore take measures to strengthen regional co-operation, expand their own insurance capacity, reduce the outward flow of funds and improve methods of selecting reinsurers and reinsurance brokers. Great care must be taken, in inward reinsurance operations, to prevent the shift of deficit operations to developing country companies, and the level of management expertise must be improved to prevent unnecessary losses. The role of supervisory authorities should also be enhanced. Finally, UNCTAD should provide support in terms of both funds and human resources to help developing countries improve their insurance techniques, train staff and enhance reinsurance security.

15. The spokesman for the Group of 77 (Egypt) said that the Committee was the only body within the United Nations system dealing with insurance on a regular basis, and the mandate of the Committee in the field of insurance should be reaffirmed. The contributions of the Committee were highly valued by the insurance industry, and the Punta del Este Declaration specifically stated that the negotiations on trade in the services sector held within the framework of the Uruguay Round would take account of the work of the international organizations concerned.

16. A sound national insurance and reinsurance market was an essential characteristic of economic growth, and the insurance sector in developing countries had an important role to play in generating capital and mobilizing resources for development. It was internationally agreed that developing countries should use their retention capacity as a vehicle to maximize the net profit to their markets, so that the net outflow of foreign exchange resulting from invisible transactions could be minimized as far as possible. That was particularly important in the present situation where developing countries were suffering from a chronic negative net transfer of resources and a shortage in funds.

17. With reference to the study "Insurance in developing countries: review of developments in 1986-1988" (TD/B/C.3/229), in spite of the diversity of insurance markets in developing countries and the different approaches adopted

by companies and Governments, certain factors were seen as major common obstacles to the strengthening and enlarging of insurance markets in those countries:

The stagnation or decline of economies, particularly in Africa and Latin America, reflected in the decreasing volume of insurance business and in the rise to intolerable levels of the amount of unpaid premiums, which had resulted in liquidity and solvency problems;

The scarcity of foreign exchange, which had reduced the bargaining power of developing countries vis-à-vis international reinsurers.

18. He noted with satisfaction that great efforts had been made by the industry and the supervisory authorities in the developing countries to achieve self-reliance, to regulate the market and to tackle specific technical and financial problems. However, regional and international co-operation was needed to help overcome the problems of the insurance industry in developing countries. The special circumstances of the insurance industry in developing countries should be taken into consideration in the outcome of the Uruguay Round.

19. On the subject of reinsurance security, the Group of 77 felt that in developing countries reinsurance continued to be an important channel for capital outflows and that reinsurance security was a subject of concern to young insurance companies because of their heavy reliance on international reinsurance and the more recent threat posed by uncollectable reinsurance.

20. His Group recognized that ultimately the reinsured had to choose its reinsurers, but most companies in the developing countries had limited possibilities for obtaining the relevant information needed for choosing reinsurers or reinsurance brokers. A designated domestic authority could therefore be of assistance to local companies by requiring basic information from reinsurers and reinsurance brokers which would be useful for the assessment of their security and by making this information available to the domestic companies. This function was perceived by the authorities in charge of insurance as an integral part of their raison d'être - as it ultimately touched upon the protection of policyholders.

21. The spokesman for Group B (United Kingdom), referring to the report on reinsurance security for developing countries (TD/B/C.3/228), welcomed the importance given in the study to reinsurance. Freedom of reinsurance played an essential role in stimulating the economic development of developing countries. The report and the annexed study on the role of reinsurance brokers was a useful contribution to the Committee's consideration of the problem on how to ensure that developing countries made the best possible assessment of the security of the reinsurance companies and brokers with whom they proposed to deal. The Group felt, however, that the study concentrated a little too much on the regulatory and legal systems applying to brokers in the United Kingdom and the United States of America, since some other Group B countries also had a significant brokerage sector. Inclusion of them in the study would have provided a wider perspective.

22. Group B welcomed the generally more constructive and realistic orientation of the report in comparison with the report on reinsurance presented at the Committee's previous session. The Group further welcomed the

recognition that reinsurance brokers could play a valuable role in assisting the ceding company to choose a reliable reinsurer. However, it did not necessarily regard the proposals in paragraphs 20-22 and 33-35 of document TD/B/C.3/228 as the best solution and asked for clarification.

23. Group B endorsed the need for the ceding company to make an assessment of security and to base its view on comprehensive and up-to-date information, which ultimately only the insurer or broker himself could provide. The report seemed to suggest that supervisory authorities could play a formalized intermediary role in the collection and dissemination of that information, but any such system would risk adding considerably to bureaucracy and delay. It would provide ceding companies with only an impression of greater protection, which might result in discouraging them from making their own assessments as fully and carefully as they otherwise would. Furthermore, the information provided to supervisory authorities for eventual onward transmission to ceding companies would become outdated more quickly than if it were provided directly to the ceding company as and when the ceding company expressed an interest. Moreover, if, as the secretariat's proposal implied, the supervisory authority were to make no assessment of the information provided, the ceding company would be only little better placed than before to make an informed choice.

24. The central relationship was between the ceding company and the reinsurer - a view endorsed by the secretariat's report. His Group expected and was prepared to encourage all reinsurers and brokers from Group B countries to supply ceding companies with all the information necessary to assess security. He also drew attention to the availability of technical assistance, whether via international organizations or bilaterally between Governments or trade bodies and individual reinsurers and brokers. The role for supervisory authorities should be to ensure that ceding companies understood and acknowledged their responsibility for assessing the security of the reinsurers and brokers they proposed to deal with and for collecting from the reinsurers and brokers concerned, and properly analysing, all the information they needed to make an effective assessment. However, his Group believed that the involvement of supervisory authorities in the process of providing ceding companies with information about security would do no more than duplicate, ineffectively, the necessary assessment of security by the ceding company.

25. The spokesman for Group D (USSR) said that the documentation provided by the secretariat objectively reflected developments in the insurance sector of developing countries. The period under review had been one of change for developing countries; some had moved towards liberalization, privatization and a loosening of control over foreign insurance companies, while others had gone in the opposite direction. However, the position of Group D countries on the insurance and reinsurance problems of developing countries had not changed; they took the view that fair conditions must be created for the insurance industry of developing countries, taking into consideration the specific needs of these countries with a view to the reinforcement of their economic independence. What was new, however, was that Group D acknowledged the right of the aforementioned parallel processes to exist if they aimed at strengthening the national insurance sector as an important factor of overall economic development.

26. Group D supported the initiatives taken by the developing countries, individually and collectively, to develop and strengthen their insurance

industry, to diversify the services proposed, to increase their own retention and to fully utilize the capacity of their own regions for reinsurance placements.

27. Many of the insurance problems of the developing countries were closely linked to their interrelationship with the insurance industry of the developed countries. It was important that that interrelationship be more balanced. Although developed country reinsurers did show some flexibility when setting rates and conditions for reinsurance, because of the large number of different countries involved, adequate criteria for national rate setting did not exist. For companies in developing countries, the scope for competition was limited, and the availability of statistical data over a long period of time and for a sufficient number of countries could give a more objective idea of the actual situation.

28. The report of the secretariat provided clear evidence of the fact that reinsurance reciprocity had produced negative results for companies in developing countries. The low quality of the reinsurance offered by companies of the developed countries was due to the fact that the financial soundness of some insurance companies derived from the considerable profits made on investments and not from their technical results. Thus, the insurance record of a company was not a sufficiently reliable indicator. His Group therefore agreed with Group B that great care should be taken in using the principle of reciprocity in reinsurance business with developing countries.

29. Finally, achieving complete security in reinsurance was extremely difficult, even for leading companies. The implementation of the measures suggested in the report of the secretariat should therefore be decided on by the developing countries themselves. The Group B comments in that connection should be thoroughly examined, and measures should be defined to overcome any negative effects that could result from the collection and dissemination of relevant information by insurance supervisory authorities.

30. The representative of India, referring to the "review of developments in 1986-1988" (TD/B/C.3/229), said that, although, as indicated in paragraph 96, the liabilities incurred in his country as a result of drought were substantial, those liabilities had been met and there was no question of them being beyond the resources of the central Government. With regard to covers against acts of terrorism and for corporate, professional and public liability risks (para. 107), those covers had been formulated and were now provided within the country.

31. The representative of Indonesia expressed his full agreement with the spokesman for the Group of 77 and the secretariat regarding the need for developing countries to increase the rate of retention of their markets, to have better access to information and to improve reinsurance security. An improvement in the existing situation was particularly necessary since his country as well as other developing countries had in the past few years experienced an acute shortage of resources for development.

32. A package of reforms had been introduced in his country in December 1988 with the objective of strengthening the country's insurance and reinsurance industries, increasing the mobilization of resources for development and providing more opportunities for the private sector. The country's economy needed to be more efficient and more outward-oriented, and diversified

insurance services would help meet the increasing demand for better and more competitively priced insurance. Since attaining those objectives would require extensive technical skills and expertise, assistance from insurers and reinsurers from the developed countries would be welcome, and the importance of international co-operation for all developing countries must be stressed. In that connection, it was hoped that the developed countries would maintain continuity in their activities, regardless of the changing economic conditions prevalent in the host countries, and that they shared his belief that, as the insurance markets in the developing countries grew and as their capacity was strengthened, benefits would accrue to all parties concerned.

33. Finally, concerning reinsurance security, his delegation believed that it was necessary for developing country companies to obtain adequate and reliable information. In this context, he agreed that the supervisory authorities had a role to play and that international co-operation among all countries should be promoted in that respect, and he requested the UNCTAD secretariat to find ways and means of promoting such a mechanism.

34. The representative of the African Reinsurance Corporation, referring to the issues raised by Group B in connection with reciprocity business, said that the early 1980s had been characterized by excess reinsurance capacity, which had resulted in some companies engaging in cash flow underwriting. Because companies had experienced underwriting losses, they had concentrated on investment income. However, the young and small companies of developing countries were more vulnerable, as they had no investment income. These companies, constrained by inadequate resources, accepted international inward business mainly through European-based brokers. The latter, however, aware of the transfer difficulties plaguing these companies, could not offer them "preferred" business. The consequence was that the lesser-quality business offered produced more losses than average. The losses in turn exacerbated the net capital transfer to the developed countries.

35. On the question of reinsurance security, he also believed in freedom of reinsurance, and the developing countries needed international reinsurance. However, the increasing complexity of reinsurance markets and the emergence of reinsurance failures and uncollectable reinsurance had created a threat to companies in developing countries because of their high reliance on reinsurance and their small capital base. As the quality of the security of international reinsurers was not homogeneous, it was prudent to continue the established practice of withholding reinsurance deposits. In his view, supervisory authorities had a role to play in the collection and dissemination of relevant information on reinsurers and brokers, because uncollectable reinsurance ultimately affected the policy holder.

36. The Director/Co-ordinator, Resources for Development Programmes apologized for the fact that the statistical survey (TD/B/C.3/231) had been distributed late and said he hoped that delegations would react to the document informally during the remainder of the Committee's session.

37. With respect to the review of developments in insurance in developing countries, comments had been made on pricing and on reciprocity. In both cases, the secretariat had sought to report the facts as observed in the field. A substantial number of insurers in developing countries had made the point on reciprocity reported in the document, and the statements on the relation between rates and loss-experience similarly reflected information and views made available to the secretariat by developing-country insurers.

Chapter II

REVIEW OF THE WORK PROGRAMME OF THE COMMITTEE
(Agenda item 6)

38. For its consideration of this item, the Committee had before it the following documentation:

> "Review of the work programme of the Committee in the field of insurance: report by the UNCTAD secretariat" (TD/B/C.3/230).

39. The spokesman for the Group of 77 (Egypt) noted with satisfaction the review of the work programme of the Committee contained in document TD/B/C.3/230 and said that his Group wished to highlight two themes for future work:

> The impact of structural adjustment policies on insurance markets in developing countries;
>
> Insurance in the agricultural sector.

40. The spokesman for Group B (United Kingdom), referring to the secretariat's report on the review of the work programme of the Committee (TD/B/C.3/230), said that, with regard to the review of past activities, his Group welcomed the fact that the secretariat had provided a much clearer and more detailed exposition of its activities in the period under review, especially in the field of technical assistance. Group B was very keen that this activity should be given greater prominence.

41. As regards the secretariat's five suggestions for future work (paras. 21-26), the Committee had already done much work in the area of suggestions E (reinsurance security) and B (extending insurance cover to productive entities of the traditional sector, in particular to agricultural production). The Committee should therefore place higher priority on the other three items, all three of which were appropriate topics for further study by the secretariat. Since, however, any comprehensive study of the restructuring of insurance markets should also take into account the regulatory situation in the markets concerned, it would be desirable for topics A (restructuring of insurance markets) and D (effective insurance regulation and supervision) to be studied together, as a single exercise.

42. Whichever topics were chosen, careful thought would need to be given to the terms of reference and objectives of the studies to be undertaken. It would also be helpful if the studies could include more detailed and factual support for any conclusions and observations that they might make than had sometimes been the case in the past.

43. The spokesman for Group D (Union of Soviet Socialist Republics) said that the secretariat's suggestions concerning orientations for the future work of the Committee (TD/B/C.3/230) responded well to the needs that had to be met for development in the field of insurance.

44. The representative of Indonesia said that his country supported the programme for the future work of the Committee proposed in the secretariat's report on that topic (TD/B/C.3/230).

Chapter III

CONSIDERATION OF TEXTS AND PROCEEDINGS OF CLOSING PLENARY

45. At the Committee's 218th plenary meeting, on 6 February 1990, the spokesman for the Group of 77 (Egypt) introduced draft resolution TD/B/C.3/L.172 relating to agenda items 5 and 6 and entitled "Review of developments in the field of insurance and reinsurance - Review of the work programme of the Committee".

46. At the Committee's 219th plenary meeting, on 7 February 1990, the spokesman for the Group of 77 (Egypt) introduced draft resolution TD/B/C.3/L.173 relating to agenda item 5 and entitled "Invisibles: reinsurance security".

47. At the Committee's 220th (closing) plenary meeting, on 9 February 1990, the Chairman introduced draft resolution TD/B/C.3/L.175 relating to agenda items 5 and 6 and entitled "Review of developments in the field of insurance and reinsurance - Review of the work programme of the Committee".

Action by the Committee

48. At its 220th (closing) plenary meeting, on 9 February 1990, the Committee adopted draft resolution TD/B/C.3/L.175 (see annex I).

49. Draft resolution TD/B/C.3/L.172 was consequently withdrawn by its sponsors.

50. The Chairman reported that, despite intensive informal discussions, no agreement had been reached on the question of reinsurance security.

51. At the request of the spokesman for the Group of 77 (Egypt), the Committee decided to annex draft resolution TD/B/C.3/L.173 to its report (see annex II).

Closing statements

52. The spokesman for the Group of 77 (Egypt) said that the Committee's session had proved very useful and fruitful, despite the fact that consensus had not been reached on all items. The two draft resolutions submitted by his Group had not presented a maximalist position but had taken account of the interests of other groups, and during the informal discussions his Group had made further concessions in an attempt to come to terms with the other groups' positions. The Committee's discussions had been marked by a spirit of co-operation and understanding, and the inability to reach a consensus on reinsurance security should be seen not as a failure but as a step towards reaching agreement at a later stage.

53. The representative of China welcomed the fact that the Committee had adopted a resolution on items 5 and 6. The failure to reach agreement on reinsurance security was to be regretted, but the Committee's session had nevertheless provided an opportunity to exchange views, enhance participants' understanding of each other's position and promote co-operation. All parties had therefore benefited.

54. The spokesman for Group B (United Kingdom) said that the Committee's discussions on both item 5 and item 6 had been very interesting and useful. Unfortunately, there had been limited success on the question of reinsurance security, but the outcome must not be seen as a defeat, since the discussions had helped delegations to understand each other's position. With regard to future Committee sessions, he requested that the statistical material compiled by the secretariat be made available to delegations one or two months before sessions. In addition, he suggested that part of the Committee's next session on insurance should be devoted to a more informal exchange of views on insurance matters generally.

55. The spokesman for Group D (Union of Soviet Socialist Republics) said that the intensive work carried out at the session had proved useful, particularly since the Committee had been able to adopt a resolution on its future activities and determine the study programme for the coming period. His Group had expressed understanding for the vital needs of the insurance industry in developing countries. Of course, the position of Group D in that regard had become more realistic and pragmatic, and it did not want to support any proposal which would not produce real and practical results. It was regretted that it had not been possible to reach agreement on reinsurance security.

56. The Chairman said that the Committee had made progress with regard to a number of issues, and although that progress was not as great as had been hoped, some new avenues for action had been identified, thus helping the Committee to continue to contribute towards solving the difficult issues plaguing the insurance industry of developing countries. With regard to future work, the resolution adopted by the Committee would open up new areas of co-operation. With regard to reinsurance security, all concerned had worked arduously to attain a compromise, but still more imagination and creativity would be required to find a common approach that took account of the legitimate concerns of all sides. Finally, while the Committee's discussions had been instructive, the presence of a large number of experts could have given rise to more detailed exchanges of views and experience. The question of how to enhance such exchanges at future Committee sessions was something worth reflecting on.

Chapter IV

ORGANIZATIONAL MATTERS

A. Opening of the session

57. The first part of the thirteenth session of the Committee on Invisibles and Financing related to Trade was opened by Mr. G. Lemmer (Federal Republic of Germany).

B. Election of officers
(Agenda item 1)

58. At its 215th and 216th plenary meetings, on 5 February 1990, the Committee elected its Bureau as follows:

Chairman: Mr. A. Kaminchia (Kenya)

Vice-Chairmen: Mr. K. Al-Mudaries (Iraq)
Mr. R. Babul (Chile)
Mrs. F. Diagne (Senegal)
Mr. V. Uzel (Czechoslovakia)
Mr. M. Young (United States of America)

Rapporteur: Mr. W. Verkooijen (Netherlands)

C. Adoption of the agenda and organization of work
(Agenda item 2)

59. At its 215th (opening) plenary meeting, the Committee adopted its provisional agenda (TD/B/C.3/227) as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Review of international monetary and financial questions related to trade and development, including, in particular, official development co-operation */
4. Debt and managing adjustment: attracting non-debt-creating financial flows and new lending */
5. Invisibles: insurance
6. Review of the work programme of the Committee
7. Other business
8. Provisional agenda for the fourteenth session of the Committee
9. Adoption of the report of the Committee to the Trade and Development Board

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*/ To be considered at the second part of the Committee's session.

60. Before the adoption of the provisional agenda, the representative of China stated in interpretative remarks that, according to the understanding of his delegation, item 4 of the provisional agenda contained two parallel and independent elements, i.e. "attracting non-debt-creating financial flows" and "new lending". He hoped that the secretariat would take this understanding into consideration in preparing documentation for that item.

D. Membership and attendance */

61. The following States members of UNCTAD, members of the Committee, were represented at the session: Algeria; Argentina; Australia; Austria; Bahrain; Bangladesh; Belgium; Bolivia; Brazil; Bulgaria; Burkina Faso; Burundi; Cameroon; Canada; Chile; China; Côte d'Ivoire; Cuba; Czechoslovakia; Democratic People's Republic of Korea; Democratic Yemen; Denmark; Ecuador; Egypt; Ethiopia; Finland; France; German Democratic Republic; Germany, Federal Republic of; Ghana; Greece; Hungary; India; Indonesia; Iraq; Ireland; Italy; Japan; Jordan; Kenya; Lebanon; Libyan Arab Jamahiriya; Madagascar; Malaysia; Malta; Mexico; Morocco; Netherlands; Nigeria; Norway; Paraguay; Philippines; Poland; Portugal; Qatar; Republic of Korea; Senegal; Spain; Sri Lanka; Sudan; Sweden; Switzerland; Thailand; Tunisia; Turkey; Union of Soviet Socialist Republics; United Kingdom of Great Britain and Northern Ireland; United Republic of Tanzania; United States of America; Venezuela; Viet Nam; Yugoslavia; Zaire; Zimbabwe.

62. The following other States members of UNCTAD, not members of the Committee, were represented at the session: Benin; Bhutan; Botswana; Cyprus; Lesotho; Niger; Oman; Papua New Guinea; Samoa; Seychelles; Zambia.

63. The following specialized and related agencies were represented at the session: World Bank; International Monetary Fund. The General Agreement on Tariffs and Trade was also represented at the session.

64. The following intergovernmental organizations were represented at the session: African Reinsurance Corporation; European Economic Community; International Conference of African States on Insurance Supervision.

65. The following non-governmental organizations were represented at the session: General Category: International Chamber of Commerce; International Co-operative Alliance. Special Category: African Insurance Organization; European Insurance Committee; Inter-American Federation of Insurance Companies; International Air Transport Association; International Association of Islamic Banks; International Association of Mutual Insurance Companies.

E. Other business
(Agenda item 7)

66. At its 220th plenary meeting, on 9 February 1990, the Committee took note of the report of the Bureau on credentials (TD/B/C.3/233).

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*/ For the list of participants, see document TD/B/C.3/INF.23.

F. Provisional agenda for the fourteenth session of the Committee (Agenda item 8)

67. At its 220th plenary meeting, on 9 February 1990, the Committee agreed that the insurance part of the provisional agenda for the Committee's fourteenth session should reflect the orientations set out in the resolution adopted by the Committee in so far as that resolution related to the work programme (for the text of the resolution, see annex I).

G. Adoption of the report of the Committee to the Trade and Development Board (Agenda item 9)

68. At its 220th (closing) plenary meeting, on 9 February 1990, the Committee adopted its draft report (TD/B/C.3/L.174 and Add.1) and authorized the Rapporteur to complete the final text as appropriate.

ANNEXES

Annex I

RESOLUTION ADOPTED BY THE COMMITTEE AT THE FIRST PART OF ITS THIRTEENTH SESSION

33 (XIII). Review of developments in the field of insurance and reinsurance review of the work programme of the Committee

The Committee on Invisibles and Financing related to Trade,

Recalling the recommendation on insurance and reinsurance in annex A.IV.23 to the Final Act adopted by the United Nations Conference on Trade and Development at its first session, in which it was agreed, inter alia, that a sound national insurance and reinsurance market is an essential characteristic of economic growth,

Recalling also resolution 42 (III) adopted by the United Nations Conference on Trade and Development on 17 May 1972, in which the Conference, inter alia, affirmed that developing countries should take steps to enable their domestic insurancce markets to cover in these markets - taking into account their national economic interests as well as the insured interests - the insurance operations generated by their economic activities, including their foreign trade, as far as is technically feasible,

Further recalling resolution 19 (IX) adopted by the Committee at its ninth session on 3 October 1980, in which it was agreed, inter alia, that it is necessary to extend and intensify efforts to achieve greater retention in developing countries and that these efforts should take into account the varying characteristics of individual market situations,

Recognizing that most developing countries have succeeded in building up an insurance industry with local supervision and that progress has been achieved in the development of the different insurance sectors in these countries during the Second and Third United Nations Development Decades,

Taking note with interest and appreciation of the report by the UNCTAD secretariat entitled "Insurance in developing countries: review of developments in 1986-1988" (TD/B/C.3/229),

Cognizant of the rapid transformation of insurance markets due to changes in policy orientation adopted by many countries and bearing in mind that this evolution may reflect on the attainments achieved by a number of developing countries in the strengthening of their domestic markets,

Considering that effective prudential regulation and supervision are essential for the sound development of insurance activities,

1. Urges developing countries to continue to intensify their efforts to promote and consolidate their domestic insurance sectors so that a strong and healthy insurance industry will continue to play its vital economic role;

2. Invites developing countries to consider measures, including steps for multilateral co-operation as may be appropriate in their individual circumstances, to increase the financial strength of the companies in their markets and the role and effectiveness of the supervisory system;

3. Calls upon the UNCTAD secretariat:

(a) To review developments in insurance markets and to analyse their impact in order to provide new insights which could prove useful to policy-makers in developing countries;

(b) To undertake a study on effective prudential insurance regulation and supervision in developing countries;

(c) To take the necessary steps to prepare a detailed programme for education and training of qualified personnel of supervisory offices in developing countries;

(d) To prepare a study on the possibilities for increasing insurance awareness in developing countries and in particular for extending insurance cover to productive entities in the traditional sector, with particular reference to agricultural production, by devising appropriate insurance covers and taking into account the work done in other organizations;

4. Stresses the need to establish closer co-operation between the insurance supervisory services of developing countries, as well as between their insurance training institutions, on a regional and/or subregional basis, where appropriate;

5. Invites developing countries to envisage ways of co-operating among themselves with a view to increasing business exchange in the field of insurance and reinsurance;

6. Invites all countries and non-governmental organizations which are in a position to do so, taking into account the mandate of UNCTAD in the field of insurance, to consider:

(i) Continuing to provide technical assistance to developing countries in the field of insurance and reinsurance, and particularly for the purpose of implementing training courses and seminars for the staff of insurance supervisory offices;

(ii) Supporting and co-operating in the organization of regional meetings for insurance supervisors and insurance educators for the purpose of exchanging information and experience regarding market changes, insurance supervision and training programmes;

7. Calls upon the United Nations Development Programme to continue to support the above-mentioned activities on a national, subregional and regional basis;

8. Invites all members to co-operate with the UNCTAD secretariat in the effective collection and dissemination of relevant information concerning their insurance and reinsurance markets, insurance legislation and insurance education, so that the information thus received can be made available to all interested countries and especially the developing countries.

220th meeting
9 February 1990

Annex II

INVISIBLES: REINSURANCE SECURITY

Draft resolution submitted by Egypt on behalf of the States members of the Group of 77 a/

The Committee on Invisibles and Financing related to Trade,

Recalling resolution 7 (VI) adopted by the Committee on 13 July 1973, which recognized, inter alia, that adequate reinsurance cover is one of the principal means by which insurance companies can extend their underwriting capacity,

Recalling resolution 218 (XI), adopted by the Committee on 22 February 1985, which, inter alia, requested the UNCTAD secretariat to prepare, in the interests of avoiding the adverse effects on insurance markets of the use by their markets of unreliable reinsurers, a study on all the criteria for assessing the security and credibility of reinsurers,

Recalling further the discussions at the second part of the twelfth session of the Committee in March 1987 which suggested that the UNCTAD secretariat continue its work on the subject of reinsurance security and particularly on the role of brokers in reinsurance,

Recognizing that reliance on reinsurance requires confidence in the security and credibility of reinsurers and that in many instances reinsurance security is inadequate, posing problems for ceding companies, particularly in developing countries,

Recognizing also that reinsurance brokers perform essential functions regarding the placement of reinsurance for ceding companies of developing countries and that their services require, more than ever, greater transparency and the observance of high standards of professionalism and ethical conduct,

Taking note with interest and appreciation of the study by the UNCTAD secretariat entitled "Reinsurance security for developing countries" (TD/B/C.3/228),

1. Reaffirms the responsibility of the direct insurer for choosing his reinsurer, without prejudice to the authorities' normal supervision and in accordance with the applicable laws and regulations;

2. Reaffirms also recommendation 3 concerning insurance and reinsurance adopted by the Conference at its first session in 1964, relating to the maintenance by ceding companies of the technical reserves and the deposits of reinsurers;

3. Emphasizes that better availability of relevant information regarding the financial soundness and reliability of reinsurers and reinsurance brokers would improve the transparency of markets for such services and help ceding companies of developing countries to make a better

informed choice of their reinsurers, contributing thus to an improvement of reinsurance security for ceding companies; invites reinsurers and reinsurance brokers to provide this information;

4. Encourages the relevant authorities of the developing countries to request reinsurance companies and reinsurance brokers who want to acquire business in those countries to provide their relevant authorities with the necessary appropriate information; and recommends that the relevant authorities in turn bring such information to the attention of ceding companies of their countries;

5. Invites the developed countries in a position to do so to support the efforts of developing countries to obtain more complete and relevant information about the activities of reinsurers and insurance brokers;

6. Requests the UNCTAD secretariat to undertake a feasibility study on the establishment of a data base on international insurance and reinsurance operations, the objectives of which would be, inter alia:

- To provide information allowing an appropriate choice among international insurance and reinsurance companies;

- To provide information on the characteristics, level of solvency and fields of work of international insurance and reinsurance enterprises;

- To minimize the risk of financial losses due to insolvency of reinsurers or inadequate information on reinsurance brokers;

7. Requests further the UNCTAD secretariat to take the necessary action in support of the implementation of this resolution.

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a/ See para. 51 above.

Annex III

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